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# FOREIGN POLICY BULLETIN

*An interpretation of current international events by the Research Staff of the Foreign Policy Association*

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## U. S. MOVES TO AID ECONOMY OF POSTWAR BRITAIN

THE basic principles on which Anglo-American trade relations will proceed in the post-war period have been greatly clarified in the past few weeks. On November 30 it was announced in Washington and London that the two governments had reached an agreement on the immediate issues of the nature and extent of lend-lease aid to be granted to Britain in 1945—a short-term agreement which will be of the utmost importance in laying the foundation for future economic cooperation. This joint statement follows on President Roosevelt's proposal, in the quarterly lend-lease report to Congress of November 24, that lend-lease aid to Britain cease after the war.

**PHASE II OF LEND-LEASE.** Details of the agreement indicate that lend-lease aid to Britain and "reverse" lend-lease will be adjusted to meet (1) the new conditions presented by Germany's downfall, (2) the continued war against Japan, and (3) the reconversion needs of the two countries with a view to avoiding disastrous consequences for the economy of either. Under these arrangements, lend-lease aid will be reduced by 43 per cent, thus providing \$2,700,000,000 for munitions and \$2,800,000,000 for non-munitions items. Some of these provisions become effective on January 1, 1945; others, with the defeat of Germany or the enactment of a new lend-lease appropriation for June 1, 1945.

While the 43 per cent reduction in lend-lease aid to Britain for the period immediately ahead provides a significant commentary on the progress of the war, it is the broader frame of reference within which the reduction is made that is most important. On September 10, 1941 British policy with respect to the disposal of lend-lease goods was formulated in a White Paper which precluded commercial export of "articles received under lend-lease." The present agreement in no way invalidates that policy, announced unilaterally; but it will now be possible for Britain to arrange for commercial imports which

may be reprocessed for its export trade. Thus, after 1945 no shipments to Britain of any manufactured goods for civilian use which enter into the export trade, nor raw materials, nor semi-fabricated materials such as iron, steel and some nonferrous metals, will be made under lend-lease. In recognition, however, of Britain's domestic needs as it enters the sixth year of a war which has so greatly strained its physical and moral resources, future lend-lease shipments will include housing materials, completely prefabricated homes and foodstuffs. In this connection a White Paper published on November 28 reveals heretofore secret statistics which seek to demonstrate that, on the basis of its population, the British war effort has been greater than that of any other belligerent. The new lend-lease agreement recognizes this situation, and "expresses in some measure the common bond which has carried our countries through the hard days of the war to approaching victory."

**EXPORTS VITAL TO BRITAIN.** American and British officials, after weeks of negotiation, have thus reached an agreement which not only recognizes Britain's vital interest in reviving its export trade but lays plans for reconversion in both countries on a percentage basis so that there will be no "undue competitive advantage" for the exporters of either nation. This arrangement should allay the anxiety expressed by many Britishers that our desire for an expanded export market would tend to nullify Britain's hope for economic stability after the war.

These fears have been at the root of much misunderstanding with regard to future Anglo-American trade relations. The degree of pessimism that had developed among the British on this subject was reflected in the urgent plea for cooperation in economic affairs which the British Ambassador, Lord Halifax, felt required to make in his speech to the Investment Bankers of America in Chicago on November 28, when he described Britain's present finan-

cial position and its vital interest in export trade. Since 1939 Britain has incurred overseas debts double the amount of previous overseas investments, and its export trade has decreased by over two-thirds in volume and over 50 per cent in value. At the end of the war and even before, Britain's first necessity will be the revival of this trade in order to maintain its balance of payments and its standard of living. The public demand for a decent standard of living, now crystallized in various plans to achieve full employment, has become a paramount factor in all public policy—domestic or foreign. As Lord Halifax pointed out, the essential exports can be made again only if Britain can import raw materials for its factories and foodstuffs for its population. The November 30 lend-lease agreement offers hope in this respect by the attention now given to Britain's export trade, the importation of large quantities of foodstuffs, and a reconversion program geared to our own.

**AID TO COOPERATION.** The most important

### TRANSITION TO MODERN ECONOMY PERTURBS LATIN AMERICANS

In the past five years, the emergence of Latin American countries as an important source of critical materials needed for war production has caused far-reaching changes in their economies. Characteristic of wartime changes have been concentration on the production of strategic materials; a shift in the direction of trade toward the United States, as one by one the pre-war markets of Latin America in Europe and Asia were eliminated; and economic diversification enforced by inability to import foodstuffs and manufactured goods. Now, with peace in sight, and the imminent possibility of retrenchment in United States spending, the people of Latin America are appraising their post-war position with some uneasiness. Before the war they were on the borderline between a colonial economy and a modern diversified economy. Now they wonder whether the difficult transition can be made without serious political and social consequences.

#### TREND TOWARD INDUSTRIALIZATION.

The war period has altered economic and social conditions. The balance between agricultural, mineral and industrial production has shifted perceptibly. Production levels have risen sharply, even spectacularly. Agriculture has been marked by increased cultivation of those items in which the given country was deficient and intensive production of raw materials no longer obtainable from the Far East. In mining, too, a marked expansion in both volume and nature of output has taken place. Latin American production of mercury has risen from 5 to 10 per cent of the world total; tungsten, from 10 to 20 per cent; and antimony from 50 to 75 per cent, being now equivalent to the total pre-war world production. Of all these developments, however, the trend toward industrialization has been most significant. A number

aspect of this agreement is the recognition that American interests will be served by a strong and stable Britain. The serious differences which exist between the two countries were demonstrated at the Chicago Aviation Conference. The text of the present agreement, however, suggests a very careful appraisal of the situation, and reveals a spirit of cooperation which will be needed in approaching such questions as the reduction of tariffs, imperial preferences, the abolition of other restrictive trade mechanisms, and the extension of further public or private credits for Britain. If the British want private loans, this would necessitate the repeal of the Johnson Act. A recommendation to this effect was also made to Congress by the Administration on November 30. Such developments, along with the expected Congressional approval of the lend-lease agreement, should afford official British circles ground for belief that this government would not willingly jeopardize Britain's future economic position. GRANT S. McCLELLAN

of countries, notably Argentina, found themselves able not only to meet domestic demand for manufactured items, but to export to neighboring countries. On the average, Latin American industrial production has risen between 15 and 20 per cent.

Thanks to price rises and wage increases, individual incomes have attained new high levels. In terms of real income, however, these increases have been nullified by the rising cost of living. Inflationary conditions, occasioned by shortages of goods and by large increases in the volume of consumer purchasing power represented by bank deposits and currency, and aggravated by speculation, are present in most Latin American countries. In Chile, where inflation is at present at its worst, the cost of living index has risen 100 per cent since 1939. In order to curb the rise in prices, every country has adopted either price controls, including rents, or rationing measures—and some have attempted both. In addition, governments have initiated fiscal and monetary measures, even to the extent of restricting the purchase of foreign exchange. Despite these severe anti-inflationary measures, prices have continued to rise, primarily as a result of ineffective administration of the controls, but also because the economic structure of most Latin American countries is such that a policy of price ceilings is difficult to maintain.

**CREDITS ABROAD.** Although Latin America will emerge from the war burdened by inflation difficulties, it has one important asset in the possession of large dollar and sterling credits abroad which may prove a stabilizing factor during the transition period. As a result of an exceptionally favorable balance of trade, it has accumulated over the five-year period 1939-44 close to \$4,000,000,000 in gold and foreign exchange (chiefly dollars)—a sum representing

a 300 per cent increase over its 1939 holdings. Owing to our concentration on war production and the shortage of merchant vessels available for hemisphere trade, this country has been unable to meet the Latin American demand for commodities. Britain, hampered by supply and shipping shortages and by lend-lease restrictions on exports, has been even less able to sell to Latin America. While United States imports from Latin America have increased almost 116 per cent since 1938, therefore, its exports in this same period show a rise of only 49 per cent. The phenomenal accumulation of foreign exchange has been considerably affected since 1941 by price increases, for the actual volume of our imports, measured in pre-war prices, has not exceeded that of 1941. Where and how these credits are to be spent—whether on repatriation of foreign investments, on the purchase of industrial equipment, or on the readjustment of outstanding debts—is a matter of considerable interest to American and British business firms.

There are indications that a number of Latin American countries—Mexico, Chile, Argentina, Brazil, Colombia and Venezuela—may invest at least part of this newly acquired purchasing power in programs of industrial rehabilitation and development. During the war, they have neither been able to replace old, outmoded factory machinery nor to purchase the necessary heavy equipment for industrial expansion. Nor have they been able to proceed with the modernization and extension of their transportation systems to the extent necessary to permit a rapid traffic in commodities. Industrial planning, however, has long been underway; and some countries, notably Mexico and Brazil, are already actively embarked on these programs, while others are only awaiting the

end of the war to obtain access to United States and British sources of supply. But it is speculative just how long these funds will last. The accumulated demand of devastated European countries for food-stuffs and raw materials may serve to create additional Latin American credits abroad. At the same time, however, it is expected that the demand for critical materials will drop sharply at the end of the war. The United States has already withdrawn certain of its Latin American contracts. Moreover, there will again be available Far Eastern sources of such materials as rubber, quinine and mica now produced in this hemisphere at a higher cost. Sooner or later, therefore, Latin American countries will have to face the problem of how to pay for their programs of industrialization.

The solution of this stubborn problem of the disposal of raw materials, the orderly development of industries without resort to uneconomic tariff or subsidy protection, continued economic aid from the United States and extension of favorable credit terms, the conclusion of commercial agreements to facilitate economic interchange—all these are questions on which joint action at a future inter-American conference is necessary.

OLIVE HOLMES

(This is the third in a series of articles on post-war Latin America.)

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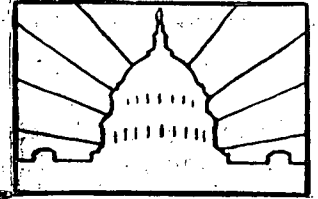
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# Washington News Letter



## STATE DEPARTMENT SHAKE-UP OFFERS OPPORTUNITY FOR REFORMS

Now that the United States has assumed in world affairs a role commensurate with its vast industrial and military power, it needs adequate machinery for the conduct of its vastly expanded international relations. In the past, the State Department had often functioned well in the achievement of the limited foreign policy objectives sought by this country. But, as it was functioning before the outbreak of war in 1939, the Department reflected primarily the relatively narrow needs of a predominantly isolationist country. Effective participation by the United States in an international organization that could really promise security to all nations will require far-reaching reforms in our system of conducting foreign affairs.

**CHANGES NEEDED.** The opportunity for reforms comes with the advancement of Edward R. Stettinius, Jr., to the post of Secretary of State as successor to Cordell Hull. Stettinius is not expected to initiate much policy. On major lines he may be content to follow the lead of President Roosevelt and intimate White House advisers; on minor lines he may accept the advice of the Foreign Service whose task, in the Department and in the diplomatic and consular missions abroad, is to deal with the technical details of day-to-day political matters. In the field of organization, however, Stettinius, an efficient businessman, could take a number of bold steps. During the past year he already has considerably improved the public relations of the Department. On December 4 the President announced a sweeping reorganization intended to strengthen the Department for its war and postwar tasks, with the removal of Adolf Berle, Jr., Breckinridge Long and G. Howland Shaw, and the appointment of Joseph C. Grew to the post of Under Secretary, vacated by Mr. Stettinius, and of William L. Clayton, Nelson A. Rockefeller and Archibald MacLeish to Assistant Secretaryships.

The first need in the Department is harmonious integration of its various offices. Today they sometimes conflict with each other, and the Department has no effective arrangement for reaching rapid decisions at the top, as is done by a military general staff, or for forcing subordinates to accept such decisions. Although the partial reorganization of the Department last January 15 was designed, among other things, to relieve the Assistant Secretaries of detailed work

so that they might form part of a group of high policy-makers, the Department often seeks to arrive at decisions through a long series of consultations among high and subordinate officers who repeat familiar arguments.

A second essential need is reform of the Foreign Service. Its officers will need training in the requirements of a diplomacy suited to the prospective changed position of the United States, which will want energetic and well-informed agents actively advancing the interests of their country abroad. Members of the Foreign Service will better understand those interests if they are given an opportunity to meet men and women from all walks of life all over the United States. To make the service more attractive to a greater number of young men, the Department should further increase the pay level of its officers. In one instance, at least, a career man was drawing \$5,000 annually after 17 years of experience. The salary of Ambassadors has for long been \$17,500; to that now is added \$3,000 in allowances—allotted to all Ambassadors, whether they serve in Panama or Britain. Yet only a man of large independent means could hold the expensive post of Ambassador in London.

**ECONOMIC FOREIGN POLICY.** A third need of the State Department is strengthening of its economic divisions. Past attempts to place administration of economic affairs in the Department have worked out unfortunately, especially in the case of export control, economic warfare, and foreign relief, but formulation of policy in economic affairs remains there. Invariably the political sections of the Department have stifled the initiative of the economic divisions. This experience suggests that a strong economic foreign policy may be developed more effectively outside the State Department, and consideration is being given in Washington to the possibility of turning over the long-term functions of the Foreign Economic Administration to the Department of Commerce. The United States needs a resourceful and active economic administration that will contribute to prosperity at home and stability abroad. The days are gone when United States commercial representatives abroad could perform the functions expected of them merely by gathering market statistics.

BLAIR BOLLES

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